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Another matter pursued by management is the operational problem of Coleman Collieries. We believe our original concept that reserves of good quality metallurgical coal must increase in value over a period of time, is correct. In this regard, it is significant that only last Saturday, one of the major Alberta coal mines announced a negotiated increase in price of over $3.00 per long ton of coking coal.

World prices and demand are strong, and Coleman has reserves estimated by consulting geologists to be in excess of 200,000,000 tons. Unfortunately, however, the present mining operations have not made the contribution to Northern's earnings we had hoped for. The problem has been a continuing series of geological disturbances or faults which have required a number of revisions in mining plans and subsequent reductions in planned output resulting in much higher costs.

Coleman's management is working vigorously to improve the situation but I would emphasize to shareholders that, at this time, we do not expect Coleman's operations to be profitable in 1973. A price increase of the order already mentioned could have a marked effect in the year's results. We will keep shareholders fully informed of developments.

Opportunities for Growth

The long term outlook for Northern and Central is excellent, although at the moment it is a disappointment to shareholders and management that the stock market doesn't reconize this fact. It has been said that there is nothing the stock market dislikes more than uncertainty and as I have already pointed out, there are undoubtedly uncertainities in the energy business in Canada. In the long term, an energy company in Canada must benefit from the ever-increasing world wide demand for its products.

At the same time, there are a number of sectors in the Canadian economy that have been extremely strong and thus attracted more investor interest. As I have already said, I am confident that the present unknowns for our industry should be resolved in great part during 1973.

I would emphasize to Northern's shareholders that their investment gives them participation in one of Canada's largest integrated energy companies with interests in oil and gas development, production, transmission and distribution, including very important participation in the Athabasca Tar Sands. In addition, Northern's shareholders own an interest in coal reserves which could supply increasing world wide need for good quality metallurgical coal, also coal for thermal generation of electricity and gasification.

In the shorter term, through to the end of this year, Northern's earnings could be favourably affected by a number of possibilities:

1. Continued improved returns on natural gas sales through upgrading of end use with subsequent higher prices;
2. Increased sales volume resulting from greater penetration of the various markets served, particularly Montreal and the Province of Quebec;
3. Better returns from the coke plant operation in Montreal, resulting from plant improvement and the very active demand in North America for foundry coke;
4. Larger sales of LNG from the increased capacity of the peak shaving plant in Montreal, in view of continuing strong U.S. demand;
5. Higher prices and delivery volumes for production of oil and natural gas in Alberta;
6. A higher price for coal.

These are the main developments, as I see them, which could occur during the remainder of 1973. If they do, then Northern and Central could continue its growth pattern in line with past progress. If, on the other hand, very few of these favourable factors materialize, then Northern and Central could experience a pause in earnings growth.

I can assure you that management is positive and aggressive and is making every effort to take the necessary steps that will insure a good year in 1973.

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Northern and Central Gas Corporation Limited

ANNUAL MEETING
Thursday, April 19, 1973
Toronto, Ontario

Address by:
EDMUND C. BOVEY
President and Chief Executive Officer

I am very pleased to have this opportunity to welcome shareholders and guests to this 16th annual meeting of Northern and Central Gas Corporation and to express to shareholders the appreciation of the directors and management for the interest taken in the company during the year.

In the limited time available to me today, I would like to discuss three subjects with you:

1. Company progress for the first quarter of 1973
2. Problems currently facing the company
3. Growth opportunities for the company

Company Progress

Preliminary unaudited results for the first quarter show net income of $11,824,000 and earnings per share of 79¢. These figures compare to 1972 first quarter net income of $10,740,000 and earnings per share of 75¢.

These results are despite the fact that, on average, temperatures in the areas served by the company were for the first three months of this year, 11% warmer than normal, whereas during the same period last year it was 9% colder than normal — a difference of 20%.

The weather pattern not only affected revenues of the gas distribution units in the group, but also Cigol's propane revenues. Had the weather been the same as last year for the period, earnings would have been $650,000 higher, reflecting the excellent progress that has been made during 1972 by upgrading gas sales to higher-priced service and the addition of almost 5,000 new customers, most of them residential as a result of aggressive sales policies.

Gaz Métropolitain was the major contributor to the first quarter improvement, with year-to-date profit figures showing a 21% increase over a year ago.

The contribution from Canadian Industrial Gas & Oil was also considerably improved over last year with an 18% increase. While Coleman Collieries showed an improvement over last year for the first three months, the results were achieved by a reduction in losses rather than increase in profits. Coleman's net loss for the first quarter of 1973 was $234,000, down from the loss of $273,000 last year for the same period.

Problems

The most vexing problem facing the company in 1973 is the uncertainty of future natural gas prices and the lack of the regulatory mechanism to pass on price increases promptly. As I mentioned in the annual report, the company has a committed supply that should provide for continued expansion through 1974.

There has been so much public discussion on the subject of gas prices during the past few months that I hesitate to take too much of your time here today to discuss it further. I do think, however, that it is important that Northern's shareholders have as much information as possible on this subject. First of all, it is to be hoped that the National Energy Board will shortly issue an order establishing new gas rates for our supplier. This will eliminate one item that is a matter of conjecture at this time. If the new rates are higher, then the increases will have to be added to present rates and approved by each of the three regulatory jurisdictions in which the company operates. I would expect that such increases at the retail level could range anywhere from say 4% to 12%, depending on the type of service.

Secondly, in the interest of customers, shareholders and industry, pricing of Alberta natural gas should be settled without further delay. As you know, the Premier of Alberta has asked for a minimum 10¢ wellhead price increase and contractural price redetermination at two year intervals. It should be emphasized that the increase requested by Alberta has been based on studies to determine the commodity value of natural gas or, in other words, the price that should be charged at wellhead to equate through to a price at the burner tip which is in line with current costs of other forms of energy.

We agree wholeheartedly with the Premier of Ontario when he recognized ten days ago, in Calgary, that the price of natural gas has to go up, but that it would be to everyone's advantage if the increase could be gradual. We would add, however, that such gradual escalation has to be fair to the producers.

We also are confident that Alberta will not price itself out of the eastern Canadian market even if it could export all gas to the U.S. markets at much higher prices, providing eastern natural gas customers recognize that natural gas has been underpriced, that it is a premium fuel, that it offers lower cost of using, better energy cycle efficiency, that it is a major contributor to the reduction of air pollution, therefore higher prices must be paid now.

One other factor in this whole discussion is the length of time it is taking to resolve the pricing problem on the Ottawa/Alberta level. The public recognizes the importance of a healthy and vigorous Canadian manufacturing industry and the fact that it should be provided with all the advantages possible for growth, even, some say, artificially low energy costs. No one seems to recognize, however, that governments and regulatory bodies have left this same Canadian industry in a state of suspense for over two years in regard to future prices and availability of natural gas.

We are doing our best to keep our major customers informed but it is not easy. It could be very helpful if politicians and members of regulatory boards would appreciate the detrimental effect of these delays on industry's ability to plan for future growth.

I am optimistic, however, and so am going to give you a forecast of what I think is liable to happen this year.

1. By November 1st, retail natural gas rates in most eastern markets will be 12¢ to 17¢ per thousand cubic feet higher. These rates will include both increases mentioned;
2. The provincial regulatory boards will act promptly so that earnings of gas distributors are not detrimentally affected;
3. There will be a start made on a more selective use of premium natural gas, but sales volumes will continue to grow, particularly in the residential market;
4. Finally, a clearer picture of Canada's proven gas reserves and future supplies will emerge indicating that there is no need to fear an energy crisis developing in Canada, as has happened south of the border.